

Hudaco

Audited abridged report

for the year ended 30 November 2014

ENGINEERING CONSUMABLES



Distributor of bearings, chain, seals, geared motors, electric motors, transmission products and alternators.

DEUTZ DIESELPPOWER

Distributor of Deutz diesel engines and Deutz spare parts and the provision of service support.



Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel.



Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose.



Distributor of geared motors, helical gearboxes, frequency inverters and electric motors.



Distributor of conveyor belting, industrial hose, fluid sealing and process control products.



Importer and distributor of pneumatic and process components.



Manufacturer of conveyor drive pulleys, forgings and rollings.



Supply and repair of hydraulic gear pumps and motors.



Manufacturer of hydraulic and pneumatic equipment.



Supplier of filtration solutions, kits and accessories.



Manufacture and assembly of hydraulic gear pumps.



Manufacturer of ferrous and non-ferrous castings.



Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel.



Distributor of electrical cabling, plugs, sockets, electric feeder systems and crane materials.



Manufacturer and distributor of mining connectors and lighting systems.



Distributor of electrical cable accessories.



Distributor of controllers, monitors and regulators of the speed of standard AC motors.

CONSUMER-RELATED PRODUCTS



Distributor of Makita power tools, Mercury marine engines and survey instrumentation.



Distributor of intruder detection, access control and related CCTV equipment.



Value added distributor of integrated security and life safety solutions. Including CCTV, access control, fire detection, public address and perimeter detection products.



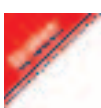
Distributor of professional mobile radio communication equipment and radio systems integrator.



Distributor of automotive clutch kits and ignition leads, rotary oil and hydraulic seals.



Importers and distributors of automotive spares and accessories.



Distributor of maintenance free batteries.



Importers and distributors of stand-by and solar batteries.

Tax dispute settled at R312 million	Partquip acquisition concluded at R550 million	Sales up 14% to R4,5 billion
Sales into Africa grew by 39%	Comparable earnings per share up to 986 cents from 983 cents	Final dividend maintained at 310 cents per share

Hudaco Industries is a South African group whose principal activity is the distribution of high quality branded industrial and electronic products in the southern African region. Hudaco businesses serve markets that fall into two primary categories. The bearings, power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool and automotive aftermarket businesses supply products into markets with a bias towards consumer spending. Adding value to the product sold by offering instant availability, advice and training etc is a key part of Hudaco's business model.

Results

This has been a very difficult year for the mining and manufacturing sectors in South Africa. Hudaco, which normally has a 50% exposure to those sectors, has been particularly affected. The mining sector has borne the brunt with its proportion of the Hudaco group's turnover decreasing from 23% in 2013 to 17% in 2014. In the first half of the year there was a five-month strike in the platinum mining sector and we reported at half year that we were 5% down in comparable earnings per share ("CEPS"). In the beginning of the second half we had to contend with the far more pervasive NUMSA strike, which affected us and our customers and where we had to close five of our businesses completely due to intimidation and violence. In addition, the end of the platinum sector strike has had a long tail, with several mines still not back to full production. With four months then left in the financial year, CEPS was 13,4% down on 2013.

In spite of the prolonged labour unrest Hudaco recovered well in the remaining months of the financial year, which are generally Hudaco's busiest months, to close the gap and deliver comparable earnings in line with last year. This result, under the most challenging circumstances, was achieved thanks to the contribution from successful acquisitions that supplemented the performance of existing businesses.

Sales were up 13,6% to R4,5 billion whilst operating profit rose 5,3% to R494 million. Headline earnings per share were wiped out by the tax settlement but it is encouraging that, despite the business loss to strikes, comparable earnings per share at 986 cents ended above last year's 983 cents.

Engineering consumables

Engineering consumables, our biggest segment at 62% of sales, was the most severely affected by the strikes. Several businesses were heavily impacted by the depressed conditions while others performed reasonably well under the circumstances. But it was our acquisitions that helped produce a 12% increase in sales to R2,8 billion and a 3,4% increase in operating profit to R302 million. Bearings International delivered a disappointing performance so we have bolstered the management team and have taken steps to right-size that business. Deutz Dieselpower was heavily affected by the platinum mining strikes but it has responded by increasing its footprint in other markets. Filter and Hose Solutions continued to deliver sterling results but growth was constrained.

Consumer-related products

Consumer-related products make up the other 38% of Hudaco's sales. Rutherford, our biggest business in this segment, had a remarkable year where construction activity and disposal of construction waste have been under tremendous pressure. The primary brand distributed by Rutherford is Makita, the market leader in lithium ion technology for power tools. Our security businesses had a good year, despite paying relocation costs and a much higher rental charge in sophisticated new premises. The move positions the business for strong growth as a clear market leader. Bolstered by Specialised Battery Systems, acquired late in the 2013 financial year, the segment increased sales by 17% to R1,7 billion and operating profit by 8% to R215 million.

The disappointment in this segment came from the lack of military contracts in our communication equipment business, Global Communications. By all accounts, this should just be a matter of timing as the issuing of these contracts has been delayed and Global is confident that it will still secure the business. Notwithstanding this setback, Global managed to produce a very healthy return on sales of 11,5%.

Dividends

The businesses are profitable and cash flows are strong so, notwithstanding the tax settlement, the total dividend for 2014 has been maintained at 465 cents, covered 2,1 times by comparable earnings. Our policy is to pay a dividend of around 40% of comparable earnings but in the past two years we have been paying a slightly higher percentage until our earnings increase enough to compensate for the increase in the effective tax rate resulting from the unwinding of the financial arrangements around the group's BEE arrangements.

Financial position

The financial position is sound. Gearing levels have increased over the past few years, in line with the group's strategic intent. While we are comfortable with the level of debt, the Partquip acquisition has increased borrowings to the upper limits we set for ourselves on certain metrics, so gearing will be managed cautiously. However, there is still capacity for smaller acquisitions. The group had R413 million net borrowings at year end (last year: R204 million) with a further R450 million (net) borrowed early in the new financial year for the acquisition of Partquip, which was effective from 1 December 2014. Inventories have been well managed considering the 13% decline in the value of the Rand against our basket of currencies. They are up only 3% to R1 141 million and this includes the acquisition of the Dosco group. The return on net tangible operating assets (RONTA) in 2014 is 31%, down on the 37% of last year but still well above our pre-tax cost of capital, which is approximately 14%.

Tax settlement

As announced on 23 January 2015, the dispute with SARS over the financing arrangements pertaining to the Hudaco BEE transaction entered into in 2007 has been settled for an amount of R312 million. At May 2014 the dispute was reflected as a contingent liability at a worst case scenario of R1,4 billion.

The board recognises that the settlement represents a large sum of money but is of the view that, given the benefit Hudaco received, the negative impact of protracted litigation on Hudaco and the risks involved, it is an appropriate solution. With this cloud lifted, Hudaco management can focus fully on growing the business in the current difficult trading environment.

Most importantly, the BEE shareholders are not affected and the group's BEE credentials remain in place.

Readers are referred to the full announcement, which is available on the company's website.

Prospects

Notwithstanding the considerable challenges arising from the economic and political environment within which our businesses operated in the past financial year, Hudaco is a well-managed business and will continue to do what it has always done well, which is to manage the matters over which it has control, whilst seeking out acquisitions and opportunities for growth.

Until economic circumstances improve we foresee only modest organic volume sales growth in South Africa although exports into Africa should grow faster. Earnings in 2015 will nevertheless be impacted positively by a combination of factors: the weaker Rand (assuming the recent turmoil in currency markets settles down and we do not experience significant volatility), cost reductions effected in 2014 and the contribution from the acquisition of Partquip. We are also confident that the focus on exports of proprietary brands (GPM, Ampco and Bosworth) to other parts of the world will continue to bear fruit. Our businesses are well positioned to benefit from any improvement in local market conditions and we will continue to explore opportunities for acquisitions in all markets.

Declaration of final dividend number 56

Final dividend number 56 of 310 cents per share (gross) for the period ended 30 November 2014 is declared payable on Monday, 9 March 2015 to ordinary shareholders recorded in the register at the close of business on Friday, 6 March 2015.

Last day to trade cum dividend	Friday, 27 February 2015
Trading ex dividend commences	Monday, 2 March 2015
Record date	Friday, 6 March 2015
Payment date	Monday, 9 March 2015

Share certificates may not be dematerialised or rematerialised between Monday, 2 March 2015 and Friday, 6 March 2015, both days inclusive. The certificated register will be closed for this period.

In terms of the Listings Requirements of the JSE Limited regarding the Dividends Tax, the following additional information is disclosed:

- the dividend has been declared out of income reserves;
- Secondary Tax on Companies (STC) credits of 233 cents per share will be utilised;
- therefore 77 cents per share will be subject to a Dividends Tax rate of 15% being 11,55 cents per share, unless the shareholder is exempt from paying Dividends Tax or is entitled to a reduced rate in terms of an applicable double-tax agreement;
- the gross local dividend amount is 310 cents per ordinary share for shareholders exempt from the Dividends Tax;
- the net local dividend amount is 298,45 cents per ordinary share for shareholders liable to pay the Dividends Tax;
- Hudaco Industries Limited has 34 153 531 shares in issue (which includes 2 507 828 treasury shares); and
- Hudaco Industries Limited's income tax reference number is 9400/159/71/2.

Directorships

Mr SJ Connelly retired as chief executive on 30 June 2014. He remains on the board as a non-executive director. Mr GR Dunford was appointed chief executive on 1 July 2014.

Results presentation and annual general meeting

Hudaco will host presentations on the financial results in Johannesburg and Cape Town on Friday, 30 January 2015 and Monday, 2 February 2015, respectively. Anyone wishing to attend should contact Janine Yon at +27 11 657 5007.

The slides which form part of the presentation will be available on the company's website from Tuesday, 3 February 2015.

The company's 30th annual general meeting will be held at Hudaco's corporate office situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale at 11:00 on Friday, 27 March 2015. The notice and proxy form for the company's annual general meeting will be posted to the shareholders during the second week of February 2015 and will be included in the integrated report that will be published on Hudaco's website during February 2015.

Approval of financial statements

The financial statements have been approved by the board and abridged for purposes of this report. Grant Thornton has signed an unqualified audit opinion on the annual financial statements. Both the financial statements and the auditor's report are available for inspection at the company's registered office.

This abridged report is extracted from audited information, but is not itself audited.

The auditor's report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work they should obtain a copy of the report together with the accompanying financial information from the registered office of the company.

For and on behalf of the board

RT Vice
Independent non-executive chairman
29 January 2015

Nedbank Capital
Sponsor

GR Dunford
Chief executive



Group statement of financial position

R million	30 Nov 2014	30 Nov 2013
ASSETS		
Non-current assets	1 024	922
Property, plant and equipment	257	214
Goodwill	730	619
Intangible assets	36	39
Taxation		40
Deferred taxation	1	10
Current assets	2 045	1 902
Inventories	1 141	1 104
Trade and other receivables	856	780
Taxation	6	2
Bank deposits and balances	42	16
Total assets	3 069	2 824
EQUITY AND LIABILITIES		
Equity	1 682	1 835
Interest of shareholders of the group	1 649	1 816
Non-controlling interest	33	19
Non-current liabilities	209	30
Amounts due to bankers	197	
Amounts due to vendors of businesses acquired	12	30
Current liabilities	1 178	959
Trade and other payables	711	673
Bank overdraft	258	220
Amounts due to vendors of businesses acquired	17	61
Taxation	192	5
Total equity and liabilities	3 069	2 824

Group statement of comprehensive income

R million	Year ended 30 Nov 2014	% change	Year ended 30 Nov 2013
Turnover	4 480	14	3 942
– Ongoing operations	3 954	3	3 846
– Acquired in 2013 and 2014	526		96
Cost of sales	2 845		2 463
Gross profit	1 635	11	1 479
Operating expenses	1 141		1 010
Operating profit	494	5	469
– Ongoing operations	414	(9)	458
– Acquired in 2013 and 2014	80		11
Fair value adjustment to amounts due to vendors	3		(23)
Profit before interest	497		446
Dividends received on preference shares			50
Finance costs	(39)		(71)
Profit before taxation	458	8	425
Taxation excluding tax settlement	128		120
Profit before tax settlement	330		305
Settlement of tax dispute	312		
Profit for the year	18		305
Other comprehensive income			
Movement on fair value of cash flow hedges	(1)		
Total comprehensive income for the year	17		305
Profit attributable to:			
– shareholders of the group	3		294
– non-controlling shareholders	15		11
	18		305

Total comprehensive income attributable to:		
– shareholders of the group	2	294
– non-controlling shareholders	15	11
	17	305

Basic earnings per share (cents)	8	930
Headline earnings per share (cents)	6	928
Comparable earnings per share (cents)	986	983
Diluted basic earnings per share (cents)	8	918
Diluted headline earnings per share (cents)	6	917
Diluted comparable earnings per share (cents)	984	970

Calculation of headline earnings		
Profit attributable to shareholders of the group	3	294
Adjusted for:		
Reversal of impairment and profit on disposal of property, plant and equipment	(1)	(1)
Tax effect		1

Headline earnings	2	294
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Calculation of comparable earnings		
Headline earnings	2	294
Adjusted for:		
Preference dividend received	(50)	
Interest on debenture	59	
Tax effect	(16)	
STT on redemption of preference shares		5

Settlement tax dispute	312	
Fair value adjustments on amounts due to vendors	(2)	23
Non-controlling interest		(4)

Comparable earnings	312	311
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Dividends		
– Per share (cents)	465	465
– Amount (Rm)	147	147

Shares in issue	31 646	31 646
– Total (000)	34 154	34 154
– Held by subsidiary (000)	(2 508)	(2 508)

Weighted average shares in issue		
– Basic (000)	31 646	31 646
– Diluted (000)	31 691	32 054

Segment information

R million	Turnover		Operating profit		Average net operating assets	
	Year ended 30 Nov 2014	% change	Year ended 30 Nov 2013	% change	Year ended 30 Nov 2014	% change
Engineering consumables	2 767	12	2 478	302	1 605	15
– Ongoing operations	2 423		2 412	248	1 495	9
– Acquired in 2013 and 2014	344		66	54	110	20
Consumer-related products	1 718	17	1 470	215	673	12
– Ongoing operations	1 536	7	1 440	189	611	3
– Acquired in 2013 and 2014	182		30	26	62	5
Total operating segments	4 485		3 948	517	2 278	
Head office, shared services and eliminations	(5)		(6)	(23)	105	
Total group	4 480	14	3 942	494	2 383	12

Group statement of cash flows

R million	Year ended 30 Nov 2014	Year ended 30 Nov 2013
Cash generated from trading	525	513
Increase in working capital	(44)	(138)
Cash generated from operations	481	375
Taxation paid	(222)	(169)
Net cash from operating activities	259	206
Net investment in new operations	(224)	(181)
Net investment in property, plant and equipment	(58)	(32)
Disposal of preference shares		2 181
Dividends and interest received		50
Net cash from investing activities	(282)	2 018
Debtenture repurchased		(2 181)
Increase in long-term borrowings	197	
Finance costs paid	(38)	(66)
Dividends paid	(148)	(164)
Net cash from financing activities	11	(2 411)
Net decrease in cash and cash equivalents	(12)	(187)

Group statement of changes in equity

R million	Year ended 30 Nov 2014	Year ended 30 Nov 2013
Equity at beginning of the year	1 835	1 696
Comprehensive income for the year	17	305
Decrease in equity compensation reserve	(22)	(1)
Non-controlling interest acquired		(1)
Dividends	(148)	(164)
Equity at end of the year	1 682	1 835

Supplementary information

The consolidated financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the South African Companies Act and the JSE Listings Requirements. The same accounting policies, presentation and measurement principles have been followed in the preparation of the abridged report for the year ended 30 November 2014 as were applied in the preparation of the group's annual financial statements for the year ended 30 November 2013, apart from the adoption of IFRS 10: Consolidated Financial Statements, IFRS 12: Disclosure of Interest in Other Entities and IFRS 13: Fair Value Measurement. These results have been compiled under the supervision of the financial director, CV Amols, CA (SA). The directors of Hudaco take full responsibility for the preparation of the abridged report and ensuring that the financial information has been correctly extracted from the underlying annual financial statements.

	30 Nov 2014	30 Nov 2013
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Average net operating assets (NOA) (Rm)	2 383	2 119
Operating profit margin (%)	11,0	11,9
Average NOA turn (times)	1,9	1,9
Return on average NOA (%)	20,7	22,1
Average net tangible operating assets (NTOA) (Rm)	1 616	1 315
PBITA margin (%)	11,5	12,3
Average NTOA turn (times)	2,8	3,0
Return on average NTOA (%)	31,8	36,9
Net asset value per share (cents)	5 210	5 737
Return on average equity (%)	1,0	17,3
Comparable return on average equity (%)	17,9	18,4

Operating profit has been determined after taking into account the following charges (Rm):

– Depreciation	33	29
– Amortisation	20	16